

VERMONT STATE EMPLOYEES' RETIREMENT SYSTEM

Meeting of the Board of Trustees

November 20, 2003

Members present:

WARREN WHITNEY, Chairperson, VSEA member (term expiring September, 2004)
ROBERT HOOPER, VSEA member (term expiring September 2004)
WILLIAM HARKNESS, VSEA member (term expiring September 2005)
JEB SPAULDING, Vice-Chairperson, VT State Treasurer
David Herlihy, representing CINDY LAWARE, Commissioner of Personnel
ROB HOFMANN, Commissioner of Finance & Administration – arrived later in the meeting
DICK JOHANNESSEN, Governor's Delegate
GORDON MACARTHUR, Retired Vermont State Employees' Association

Also attending:

Cynthia Webster, Director of Retirement Operations
David Minot, Director of Investment Services
Dick Charlton, Kevin Kondry, Doug Moseley, NEPC
CATHERINE SIMPSON, VSEA Alternate (term expiring September 2005)
William Rice, Assistant Attorney General
Joe Healy, Retired Vermont State Employees' Association
Elizabeth Pearce, Deputy State Treasurer
Bill Norton, Treasurer's Office Internal Auditor

The Chairperson, Warren Whitney, called the board meeting to order at 8:15 a.m. on Thursday, November 20, 2003 in the Ethan Allen Room at the VT State House, Montpelier, VT.

ITEM 1: Approval of minutes for July 10, 2003, August 14, 2003, August 21, 2003 and November 13, 2003

On a motion by Mr. MacArthur seconded by Mr. Hooper, the Board unanimously voted to approve the minutes of July 10, 2003, August 14, 2003, August 21, 2003 and November 13, 2003.

Mr. Hofmann arrived at the meeting.

ITEM 2: Treasurer's Report

A. Proxy Voting RFP

Mr. Spaulding and Ms. Pearce advised the Board of the Proxy Voting RFP results. Two firms responded, which were reviewed with the assistance of the VSERS and VSTRS Board Chairs. The Treasurer requested the Board's permission to pursue contract negotiation with one of the firms, Institutional Shareholder Services (ISS), and explained that the contract cost would be split with any other participating system and the Treasurer's Office – Common Investment Trust.

On a motion by Mr. Hofmann seconded by Mr. Johannesen, the Board unanimously voted to authorize the Treasurer to enter into RFP contract negotiations with ISS for proxy voting management services, not to exceed \$45K, and to present the final contract terms to the Board for approval in December 2003.

A sub-committee in cooperation with members of the other participating Boards would design and develop the proxy voting policy, for their Board's approval.

B. Budget presentation

Ms. Pearce and Mr. Norton reviewed and discussed the FY'03 financial statement with the Board. Ms. Pearce explained that the statement is printed in the Comprehensive Annual Financial Report (CAFR) and is being presented to the Board as background, prior to the presentation of specific FY'05 budget information at a meeting in December.

C. Retirement Office

Mr. Spaulding advised the Board that the Retirement Office is now fully staffed and a department wide reclassification project was submitted to the Department of Personnel. The objective is to be sure that jobs are defined, and staff is properly recognized and compensated for their service. Additionally some reorganization is planned for the Retirement Office. In addition to bringing Ms. Holden back as Board Coordinator, the Retirement Operations Chief position has been reclassified down to a Retirement Specialist position. This was done in order to provide additional resources at the customer level. The intent is to maximize customer service and meet the needs of the membership across the three systems. A new position, Deputy Director, has also been requested with the plan that the Deputy Director would be responsible for day-to-day supervision of operations staff and serve in the reporting, financial management, and information technology side of operations. Ms. Webster will supervise the Deputy Director as well as the Retirement Specialists, providing additional resources for customer service, outreach, education, and staff development.

In addition to the organizational changes planned, the Treasurer's Office is proceeding with the management consultant RFP. Twelve RFP responses were received; 9 out-of-state and 3 in-state, which were narrowed to four candidates. The Treasurer's Office anticipates final selection shortly. The intent of this project is to complete an intense analysis and comprehensive review of the Retirement Office operations and workflow. The project is expected to be completed by early spring with the recommendations and/or results to be used in the information technology (IT) project.

On a motion by Mr. Hooper seconded by Mr. Johannesen, the Board unanimously voted to authorize the Treasurer to proceed with the RFP selection and enter into a contract for the Retirement Office management consultant services at an expense not to exceed \$76,460 with the cost to be proportionately divided amount the three retirement systems, based on assets, SDIA and Defined Contribution plan, based on an estimate of general department resources.

Mr. Spaulding invited interested members to the Treasurer's Office to review the RFP responses.

Mr. Hooper offered an objection to considering the firm Maximus, based on his knowledge of their management style and experience of promoting outsourcing rather than labor retention. Mr. Whitney directed Board members to refer any other objections to the Treasurer.

ITEM 3: Discuss/Act on Mailing Request by Vermont Retired State Employees' Association

Mr. Whitney distributed a DRAFT policy regarding mailing requests.

Mr. Hooper made a motion seconded by Mr. MacArthur, to adopt the VSERS Mailing Request policy.

Discussion ensued.

On a motion by Mr. Hooper seconded by Mr. Herlihy, the Board voted to table action on the policy until the December 11, 2003 meeting. Motion carried, Mr. Hofmann and Mr. MacArthur voted no.

Mr. Whitney will re-draft the policy and distribute it to the Board and staff for comment prior to the December meeting.

ITEM 4: Investment Consultant Report for Q3/03

Mr. Charlton, Mr. Kondry and Mr. Moseley reviewed the third quarter 2003 performance. They reported a market value fund balance of \$942.4 million and a quarterly return of 3.4%, an out performance of the 2.7% median public fund. The one-year return was 19.7%, three-year return (1.4)% and five-year return 4.9%.

NEPC will keep the Board informed of developments in the mutual fund trading investigations.

Mr. Hofmann left the meeting.

ITEM 5: Investment Manager Presentations

UBS Realty: Dan Leary, Head of US Operations and Kevin Crean, Portfolio Manager appeared before the Board. The actively managed, open ended, commingled, core portfolio of equity real estate was reported to have 115 investments and \$4.9 billion in assets of which approximately \$37.9 million of the market value is from the VSERS. The Q3/03 return was 2.4% compared to the NCREIF Index of 1.8%, one-year return was 8.9%, three-year return 7.2% and five-year return 9.9%.

Loomis Sayles: William Driscoll, Portfolio Manager and Timothy Haarmann, VP Client Product Manager appeared before the Board. The domestic fixed income portfolio was reported to have a market value of approximately \$202 million with a Q3/03 return of 0.4% compared to the Lehman Brothers Aggregate Index of (0.1%), one-year return was 12.2%, three-year return 9.2% and five-year return 6.9%.

Mr. Spaulding left the meeting.

Henderson: Michael Hartigan, Portfolio Manager, Alan Koson, Director of Marketing, and Daniel McDonough, Director of Business Development appeared before the Board. The open ended, commingled, core portfolio of equity real estate was reported to have a market value of 16 investments and \$239 million in assets of which approximately \$36.2 million with a Q3/03 return of 2.8% compared to the NCREIF Index of 1.8%, one-year return was 5.4%, three-year return 4.5% and five-year return 7.4%.

Mr. Hooper left the meeting. Ms. Simpson assumed a seat as VSEA Alternate voting member.

Mr. Spaulding returned to the meeting.

ITEM 6: Small Cap Growth Finalist Presentations

- ✓ Longwood Investment Advisors, Inc.: Bob Davidson and Kathleen Jordan.
- ✓ Artisan Partners, LP: Carlene Ziegler, Marina Carlson and Emily Colella.
- ✓ Westcap Investors, LLC: Rob Knowles and Joshua Shaskan.

On a motion by Mr. Spaulding seconded by Ms. Simpson, the Board unanimously voted to offer the approximately \$59 million small cap growth contract to Longwood Investment Advisors, pending final contract negotiations with NEPC.

ITEM 7: Any other investment related business to come before the Board

The Board discussed the status of their real estate and large cap managers with NEPC.

When the discussion turned to Barring Asset Management, Mr. Charlton disclosed that one of his senior professionals is married to a senior professional at Baring.

On a motion by Mr. MacArthur seconded by Mr. Johannesen, the Board voted to put Baring Asset Management on a watch list and to direct NEPC to advise them of the action. Motion carried, Mr. Herlihy and Mr. Spaulding voted no. Ms. Simpson abstained.

The Board discussed the real estate managers.

On a motion by Mr. Johannesen seconded by Ms. Simpson, the Board unanimously voted to seek guidance for the AG's Office, UBS and other appropriate professionals to determine how best to proceed and bring back a recommendation to the Board for the December 11, 2003 meeting.

The Board discussed its preference of meeting rooms for future meetings. There were no strong feelings expressed, but the consensus of the Board was to use the 4th floor Board Room or Treasurer's Office Conference Rooms in the basement at 133 State Street.

The Board was advised that letters were mailed to the two 457 plan day traders. No response has been received.

Mr. MacArthur indicated that his withdrawals from the 457 plan are not executed on the same days as the documents indicate.

NEPC will be offering another educational session during the later part of January.

On a motion by Mr. Spaulding seconded by Mr. MacArthur, the Board unanimously voted to adjourn at 4:45 p.m.

Respectfully submitted,

Cynthia L. Webster
Executive Secretary to the Board

GOALS

The Board established the following list of goals to be addressed in the future:

- Form a *Policy Development* sub-committee

TO DO's

Who	What	When	Done
-----	------	------	------

**** = for possible 2004 legislative changes**

CLW & Joan	Complete all backlogged minutes (10/9 item 2)	ASAP	11/21
PD Sub	Complete Proxy voting policy (10/9 item 3)	ASAP	
CLW	Work w/DOP regarding old LOA's (10/9 item 4)	ASAP	
CLW	Obtain AG's opinion re: old LOA's (10/9 item 4)	ASAP	
PD Sub	Prepare mailing request policy (10/9 item 6)	11/20/03	
All	Review Deferred Comp plan document (10/9 item 10)	12/11/03	
CLW	457 modified language for members to Board (10/9 item 11)	12/11/03	
CLW	Prepare travel report (10/9 item 12)	11/20/03	
WW & DM	Prepare letter for 457 participants (mkt tmng) (10/29 item 3)	ASAP	11/21
CLW	Advise BenefitsCorp of newsletter info request (10/29 item 2)	ASAP	
CLW	Obtain legal opinion re: real estate assets (11/21 item 7)	12/11/03	